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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

DAU5014 – AUDITING 1
(All sections/Groups)

10 AUGUST 2022
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1**PART A**

Colby, the major shareholder of M&P Company invested RM500,000 to start the company in January 2021. To operate the business, he recruits a management team with skills in various areas such as marketing, production, creative design, and finance. Each manager is compensated based on the company's yearly sales performance. At the end of the financial year-end, Jim, the finance manager, is responsible for preparing a full financial statement for the company's general meeting in March 2022. Derek, the company's minor shareholder, suggests that Colby get the financial statement to be audited before the general meeting. Colby refuses Derek's suggestion since the auditor's fees will increase the company's cost.

Required

- (a) Based on the situation above, do you think Colby made the right decision? Please explain the reason for your answer. (11 marks)
- (b) Identify and explain **TWO (2)** characteristics that an auditor should practice. (4 marks)

PART B

(a)

No	Situation
1.	Halim has been working as an accountant for a multinational company for six years. In 2020, Halim was conferred as a Chartered Accountant by the Malaysian Institute of Accountants (MIA) after passing the professional examination by the institution. Halim had quit his job as an accountant and worked as an auditor at Chong & Co. Currently, Halim is assisting the audit team in conducting a financial statement audit for CGC Sdn Bhd, a private company based in Muar, Johor.
2.	Daniel is an auditor with eight years of working experience with Wendy & Co, an audit firm in Seremban. Daniel has been assigned to lead the financial statement audit for J&J Trading Berhad for the financial year-end 2021. Daniel feels positive about the audit assignment as his wife, Linda, is one of the staff working at J&J Trading Berhad. Daniel knows that it will be convenient for him to accumulate the audit evidence with support from his wife. Daniel does not own any shares in the client's company nor conduct any business transactions with the company.
3.	Tasha was assigned a new client in 2022, BBD Berhad, a financial institution that provides financial facilities to public and commercial

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	companies in Malaysia. In February 2020, Tasha took RM80,000 personal loan from BBD Berhad to make a full settlement for her previous study loan fees. The loan balance as of January 2022 is RM68,540 plus interest.
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Required

Identify whether Halim, Daniel and Tasha are qualified to act as an approved company auditor in each situation above. Explain the reason for your answer.

(Note: Use the table format below to write your answers)

No	Qualified (Yes/ No)	Explanation
1.		
2.		
3.		

(9 marks)

- (b) Based on the Companies Act 2016, how should an auditor report the financial statement to a publicly listed company's members? (1 mark)

(Total: 25 marks)

QUESTION 2**PART A**

Mei Lee is the new audit intern at Benny & Co, an audit firm that serves small and medium-sized companies in Melaka. Vanessa, the audit manager, assigned Mei Lee to join an audit team that will conduct a financial statement audit for GCB Trading Sdn Bhd (GCB), a wholesaler in Muar, Johor. The audit team is led by Siew Chen, an experienced auditor with six years of working experience. Siew Chen needs to explain the audit plan she has prepared to Mei Lee for the next audit assignment in Muar. The following text conversation is held between Siew Chen and Mei Lee.

Siew Chen	Hi, Mei Lee! Nice to meet you. Welcome to Benny & Co and our audit team. I am really glad you will be helping us with the audit assignment in Muar Johor next week.
Mei Lee	Thank you, Siew Chen. I am glad to have the opportunity to learn from you and the other audit team members.
Siew Chen	Just a quick introduction for you. Our audit team consist of four persons, including myself. The other team member, Ronald, Jessica and Min Chiang, is in charge of performing audit procedures and preparing the audit working paper. You will assist them most of the

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	time during the audit process. Feel free to ask any one of us if you have any questions. GCB is our new client. Previously, we have performed a preliminary engagement activity before deciding to take GCB as our client. A client acceptance and continuance procedure was done, and we have also prepared the engagement letter for the audit assignment. The client has signed the letter and reverted it to us. Officially, they are our new client now. These activities are part of the first phase of an audit process, preliminary engagement. I have assigned Min Chang to conduct a background search of the client so that our audit team understands the client's business nature and financial performance. It also helps us assess the risk of material misstatement in the client's financial statement. Ronald also has helped the team to conduct a preliminary analytical procedure. Mr Raymond, the Finance Manager at GCB, sent the main audit document to us last week. You can ask for the document from Jessica if you want to take a look. We will be communicating with Mr Raymond most of the time at GCB. I will introduce you and the other audit team member next week. Do not worry, ok.
Mei Lee	Thank you, Siew Chen, for a detailed introduction. May I ask how long our audit team will be at Muar, Johor? How about the transportation? Do we need to commute daily there from Melaka?
Siew Chen	Oh! I forgot to mention just now. I allocated three days for the field work at GCB. We will depart on Monday and hopefully be able to finish everything and come back on Thursday morning. I have booked a hotel for us to stay over. It is a 5 minutes distance to GCB. As for transportation, in Benny & Co, we practice carpooling to strengthen the bonding between audit team members, and it is easier to charge and claim the petrol cost to GCB. After this, please meet Ronald, Jessica or Min Chiang. After their weekly meeting with Vanessa, they will return to the office soon.
Mei Lee	That sounds awesome! It will be an interesting learning journey for me. Thank you, Siew Chen. I will meet them after this.
Siew Chen	My pleasure, Mei Lee.

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Required

- (a) What is the purpose of an engagement letter in the GCB audit assignment? (2 marks)
- (b) Identify and explain **THREE (3)** types of information that will be included in the engagement letter. (6 marks)
- (c) In your opinion, why do you think Benny & Co conduct a client acceptance and continuance procedure before accepting GCB as their new client? (4 marks)
- (d) State **ONE (1)** benefit of preparing an audit plan for an audit assignment. (2 marks)
- (e) Based on the text conversation above, what is the position that Siew Chen currently holds in Benny & Co. (1 mark)
- (f) What is the final phase of an audit process? (1 mark)

PART B

No	Situation
1.	You are responsible for auditing GCM Berhad (GCM), a cosmetic product manufacturer, for the year ended 31 December 2021. During your audit process, you were informed that there is an ongoing lawsuit case involving your client as the defendant in the court of law. The lawsuit is regarding an infringement of a patent filed by GCM's direct competitor. Based on your discussion with the company's legal counsel, you were told that the company would likely be liable for the charge. Since the potential settlement is highly material, GCM refuses to disclose this matter in their financial statements.
2.	During your financial statement audit at TTC Berhad on 30 June 2021, you could not perform asset sighting to observe several fixed assets that carry significant value in the financial statement. The restriction was caused by closing one of the production rooms due to the Covid-19 sanitisation procedure. However, you were able to verify the fixed assets balance and existence by other audit procedures.

Required

- (a) For each situation above, state the type of audit report you would issue. Explain the reason for your answer.

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(Note: Use the table format below to write your answers)

No	Type of Audit Report	Reason
1.		
2.		

(6 marks)

(b) Describe each of the elements of the audit report below :

- (i) Report title
- (ii) Auditor's opinion section
- (iii) Signature and address of audit firm

(3 marks)

(Total: 25 marks)

QUESTION 3

PART A

Jackson, the Chief Executive Officer (CEO) of DEXXON Berhad, a wholesale company, had implemented several control environment factors across the company over the past two years. Jackson is positive that a good control environment may support internal control implementation in the company. It allows the company to safeguard the integrity of its assets, enhance the reliability of the accounting information, and enhance the efficiency of the company's operation altogether. As a result, the company's return on investment has increased by 35% from 2020 to 2021. The main control environment factors implemented in DEXXON Berhad are listed in **Figure 1** below.

- Communication and enforcement of integrity and ethical values
- Human resource policy and procedures
- A commitment to competence
- Participation by those in charge with governance

Figure 1

Required

- (a) Explain each of the control environment factors listed in **Figure 1** above.
(8 marks)
- (b) Identify and explain **TWO (2)** weaknesses of internal control implementation in the company.
(6 marks)

Continued...

- (c) Assume you are the auditor in charge of Dexxon Berhad's financial statement. What is your responsibility for the company's internal control? (2 marks)

PART B

Mei Hua is the auditor of Zepa Textile Berhad (ZTB), a trading company in textile industry. In the last year's audit assignment, Mei Hua found significant weaknesses in the company's sales revenue processes. As for the current audit assignment, she plans to extend her audit procedures in sales revenue account balance and account receivable balance. Mei Hua has requested the finance director of ZTB to prepare all the accounting documents related to the sales revenue account before she visits the company for the field audit. The documents are listed in **Figure 2**. James, the audit firm's audit partner, reminds Mei Hua to practice professional scepticism when evaluating the audit evidence.

Sales journal	Credit memo	Sales ledger	Bank reconciliation
Bank statement	Customer sales order	Sales invoice	Payment receipt

Figure 2

Required

- (a) Define audit evidence. (2 marks)
- (b) How should Mei Hua practice professional scepticism during the audit process? (2 marks)
- (c) Based on **Figure 2**, identify which accounting documents are highly reliable. Explain the reason for your answer. (5 marks)

(Total: 25 marks)

QUESTION 4

PART A

There is no specific guideline on materiality that was made available to auditors in the accounting standards or auditing standards since materiality is a relative concept and not an absolute concept. However, auditor needs to determine the materiality level by considering two factors related to the item in the financial statements.

Required

- (a) What is the concept of materiality? (2 marks)
- (b) State **TWO (2)** factors that need to be considered by the auditor in determining the materiality of an item in the financial statement. (2 marks)

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PART B

Shila, a new staff auditor at Herman & Co were assigned to conduct a financial statement audit for PSB Sdn Bhd for the year ended 30 June 2021. Herman, the audit partner, reminds Shila to assess and decide the appropriate level of audit risk for the client by referring to the audit risk model before preparing an audit plan. Being a new audit staff, Shila is confused by the procedures to determine the audit risk for her first audit engagement.

Required

- (a) Define audit risk. (2 marks)
- (b) State the component of the audit risk model and explain each of the components. (9 marks)

PART C

The Board of Directors (BOD) of BBM Berhad, a company specialising in manufacturing shoes in Melaka, decided to hire a team of internal auditors. The BOD has approved a budget of RM250,000 to set up an extra office room for the internal auditors and all equipment the team needs. The BOD strongly believes that the internal audit function will be a good control mechanism in the company. The internal audit function is estimated to begin on 1st January 2023.

Required

- (a) State **FOUR (4)** areas the internal auditor may contribute as a control mechanism for the Board of Directors. (4 marks)
- (b) Differentiate internal auditing function and external auditing function based on the following category:
 - (i) Performance
 - (ii) Primary concern
 - (iii) Period

(6 marks)

(Total: 25 marks)

End of Paper